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2000 ANNUAL REPORT OF THE BOARD OF TRUSTEES OF THE FEDERAL HOSPITAL INSURANCE TRUST FUND

COMMUNICATION

From

**THE BOARD OF TRUSTEES,
FEDERAL HOSPITAL INSURANCE
TRUST FUND**

Transmitting

**THE 2000 ANNUAL REPORT OF THE BOARD,
PURSUANT TO
SECTION 1817(b) OF THE SOCIAL SECURITY ACT,
AS AMENDED**

B. HIGHLIGHTS

The major findings of this report are summarized below. Unless otherwise noted, all estimates are based on the intermediate assumptions.

- The financial projections in this report are more favorable than in the 1999 report. This improvement is substantial in the short range (2000-2009), and the HI trust fund now meets the Trustees' test of short-range financial adequacy for the first time since 1991. The projected long-range actuarial balance is moderately improved, but a substantial long-range deficit remains.
- HI income exceeded program expenditures by $21 billion in calendar year 1999—the second consecutive trust fund surplus. Income increased significantly as a result of robust economic growth, and expenditures actually declined, due to the continuing implementation of the Balanced Budget Act of 1997, low increases in health care costs generally, continuing efforts to combat fraud and abuse in the Medicare program, and a substantial decline in the utilization of home health care services.
- Income is projected to continue to exceed expenditures for another 17 years under the Trustees' intermediate assumptions. Thereafter, income would fall short of expenditures but, by drawing down on trust fund assets, the program could continue to pay benefits for another 8 years. Under the intermediate assumptions, the HI trust fund is estimated to be depleted in 2025—a substantial improvement over prior estimates.
- The future operations of the HI trust fund will be very sensitive to future economic, demographic, and health-cost trends and could differ substantially from the intermediate projections. Under the Trustees' "low cost" assumptions, for example, HI assets would increase steadily throughout the projection. Under the "high cost" alternative, however, assets would be depleted in 2012.
- There are expected to be 3.6 workers per HI beneficiary when the baby boom generation begins to reach age 65 in 2010. Then the worker/beneficiary ratio is expected to swiftly decline to 2.3 in 2030 as the last of the baby boomers reaches age 65. The ratio is expected to continue declining thereafter (but more gradually) as life expectancy continues to lengthen.
- In the long range, HI expenditures are projected to grow rapidly as a fraction of workers' earnings, from 2.8 percent in 1999 to 6.7 percent in 2075. As a fraction of the Gross Domestic Product (GDP), expenditures would grow somewhat more slowly, from

1.4 percent in 1999 to 2.9 percent in 2075. Expenditure growth results from increases in both the number of beneficiaries and the average cost of health services per beneficiary.

- Projected HI tax income would meet only a declining share of expenditures under present law. Tax income is expected to equal 110 percent of expenditures in 2000 and 77 percent in 2025 (when the fund is estimated to be depleted), and would cover about one-half of costs 75 years from now.
- Despite the significant improvement in the financial outlook for the HI trust fund, we should determine effective solutions to the remaining long-range financial problems. Consideration of further reforms should occur in the relatively near future, since the sooner solutions are enacted, the more flexible and gradual they can be. At the same time, however, solutions determined and implemented today will likely need adjustment over time. We believe that solutions can and must be found to ensure the financial integrity of the HI program in the long term. Effective and decisive action is necessary to build upon the strong steps taken in recent reforms.

Key HI Data for Calendar Year 1999:

- In 1999, the HI program provided protection against the costs of hospital and other medical care to about 39 million people (34 million aged and 5 million disabled beneficiaries). Approximately 22 percent of these individuals actually received medical services covered by HI during the year. The total number of HI beneficiaries increased by 0.9 percent in 1999 and by 17.8 percent over the last 10 years.
- HI benefits amounted to $128.8 billion, a 4-percent decrease over the prior year. Average expenditures per HI enrollee decreased by 5 percent to $3,310.
- Administrative costs were 1 percent of program expenditures.
- Summary of HI trust fund operations in 1999 (in billions):

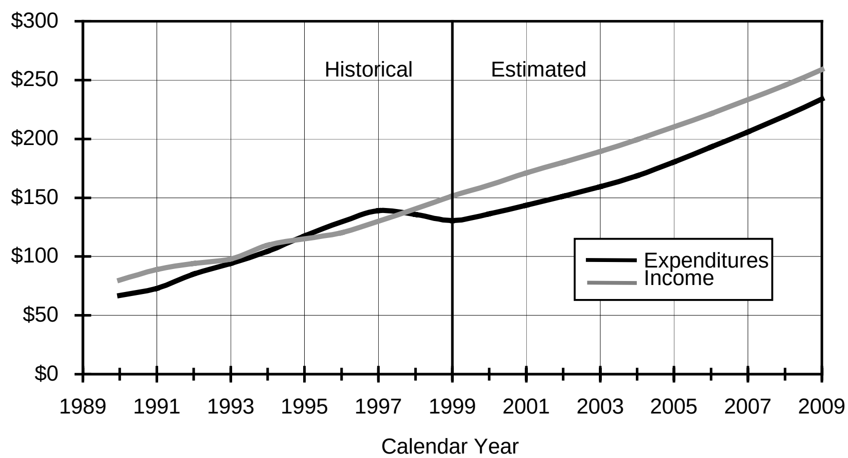
Fund Assets (12/31/98)	$120.4
Income	151.6
Expenditures	130.6
Fund Assets (12/31/99)	141.4
Net Change in Assets	21.0

- Payroll taxes, paid by 155 million covered workers, accounted for 87 percent of total HI income. Interest represented 7 percent, and

E. 10-YEAR ACTUARIAL ESTIMATES (2000-2009)

The Balanced Budget Act of 1997 and subsequent developments in 1998 and 1999 have substantially improved the short-range financial status of the HI trust fund. Prior to the Balanced Budget Act, HI expenditures were estimated to grow at an average rate of over 8 percent. During 1998 through 2002, annual growth is projected to average only 3 percent as a result of the Act and assumed favorable price and utilization trends. Thereafter, however, expenditure growth is expected to return to the level of about 6 percent. The deceleration during 1998-2002 allows HI income to "catch up," creating significant surpluses each year in the fund operations. After 2004, these surpluses would gradually decline until turning to deficits in 2017 and later.

Figure I.E1.—HI Expenditures and Income
[In billions]



The Balanced Budget Act reduces the rate of growth in HI expenditures through a combination of measures. A new prospective payment system was implemented in 1998 for Medicare payments to skilled nursing facilities, and new prospective payment systems are being established for home health agencies and certain hospitals not already reimbursed under such arrangements. In addition, annual payment updates for all HI health care providers are constrained. Finally, the majority of home health care services are reclassified as an SMI benefit, shifting the cost of such services over a 6-year period from the HI trust fund to the SMI trust fund. The Medicare, Medicaid, and SCHIP Balanced Budget Refinement Act of 1999 eases certain of these provisions somewhat, but the overall net impact of both Acts still reduces HI expenditures substantially.

Table I.E1 presents the projected operations of the HI trust fund under the intermediate assumptions for the next decade. At the beginning of 2000, HI assets were slightly above the level of annual program expenditures. The Board of Trustees has recommended that assets be maintained at a level at least equal to annual expenditures, to serve as an adequate contingency reserve in the event of adverse economic or other conditions. This represents a more stringent standard than just maintaining a positive balance.

Based on the 10-year projection shown in table I.E1, the Board of Trustees applies an explicit test of short-range financial adequacy, which is described in section II.D of this report. For the first time since the 1991 Trustees Report, the HI trust fund meets this test.

Table I.E1.—Estimated Operations of the HI Trust Fund under Intermediate Assumptions, Calendar Years 1999-2009

[Dollar amounts in billions]

Calendar year	Total income	Total expenditures	Change in fund	Fund at year end	Ratio of assets to expenditures[1] (percent)
1999[2]	$151.6	$130.6	$21.0	$141.4	92
2000	160.8	136.4	24.4	165.8	104
2001	171.0	143.7	27.3	193.0	115
2002	180.0	151.3	28.7	221.8	128
2003	189.4	159.5	29.9	251.6	139
2004	199.3	168.7	30.6	282.2	149
2005	210.3	180.3	30.0	312.2	157
2006	221.3	192.8	28.5	340.7	162
2007	233.4	206.0	27.5	368.2	165
2008	245.6	219.6	26.0	394.2	168
2009	258.8	234.0	24.8	418.9	168

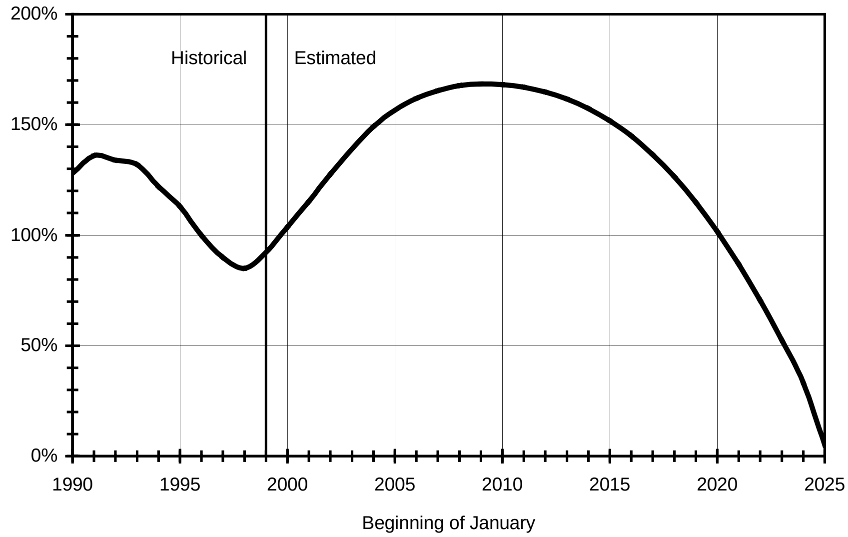
[1]Ratio of assets in the fund at the beginning of the year to expenditures during the year.
[2]Figures for 1999 represent actual experience.

Note: Totals do not necessarily equal the sums of rounded components.

The estimates shown in table I.E1 represent a significant improvement from those shown in the 1999 annual report. The improvement arises from higher payroll tax revenues in 1999 than had been estimated and lower benefit expenditures, together with adjustments to projected income and expenditure growth for the future based on this experience. Robust economic growth in 1999 led to the significant increase in HI payroll tax revenues. Lower HI expenditures reflected slow increases in health care costs generally, continuing efforts to combat fraud and abuse in the Medicare program, and a substantial reduction in utilization of home health care services. In 1999, HI income exceeded expenditures by

Under the intermediate assumptions, the assets of the HI trust fund would increase from about 104 percent of annual expenditures at the beginning of 2000 to 168 percent at the beginning of 2008. Thereafter, assets would decline relative to annual expenditures and, without corrective legislation, would be exhausted in 2025 as illustrated in figure I.F3. To the extent that actual future conditions vary from the intermediate assumptions, the date of exhaustion could differ substantially in either direction from this estimate.

Figure I.F3.—HI Trust Fund Balance at Beginning of Year as a Percentage of Annual Expenditures



The year-by-year cost rates and income rates shown in figure I.F1 can be summarized into single values representing, in effect, the average value over a given period. (Sections II.E and III.D describe how these summarized values are calculated.) The difference between the summarized income and cost rates is called the "actuarial balance." Based on the intermediate assumptions, an actuarial balance deficit of 1.21 percent of taxable payroll is projected for the 75-year period, representing the difference between the summarized income rate of 3.27 percent and the corresponding cost rate of 4.49 percent. The actuarial balance varies from a surplus of 0.5 percent of taxable payroll under the low cost assumptions to a deficit of 4.6 percent under the high cost assumptions. The actuarial balance has traditionally served as a convenient single measurement to summarize the financial status of the program. It can be interpreted as the amount of change in the tax rate that would be required to

G. CONCLUSION

The financial projections shown for the HI program in this year's report represent a significant improvement over those shown last year. The improvement arises from higher payroll tax revenues in 1999 than had been estimated and lower benefit expenditures, together with adjustments to projected income and expenditure growth for the future based on this experience. The higher payroll taxes in 1999 resulted from robust economic growth, particularly the rapid growth in employment. HI expenditures in 1999 were lower than expected due to slow increases in health care costs generally, additional efforts to combat fraud and abuse in the Medicare program, and a substantial reduction in the utilization of home health care services. In 1999, total HI income exceeded total expenditures by $21 billion—the second consecutive year that the trust fund has experienced a positive cash flow.

Collectively, these impacts are estimated to postpone the depletion of the HI trust fund from 2015 until 2025 and to reduce the long-range HI actuarial deficit by about one-sixth (from 1.46 percent of taxable payroll to 1.21 percent), based on our intermediate set of assumptions. For the first time since 1991, the HI trust fund meets our short-range test of financial adequacy. These are substantial and welcome improvements in the financial outlook for the HI program.

Even with these important improvements, however, the HI program remains substantially out of financial balance in the long range. Based on our intermediate assumptions, income is projected to continue to moderately exceed expenditures for the next 17 years but to fall short by steadily increasing amounts in 2017 and later. These shortfalls can be met by redeeming trust fund assets but only until 2025 under the intermediate assumptions. Thus, without additional legislation, the fund would be exhausted in the future—initially producing payment delays, but very quickly leading to a curtailment of health care services to beneficiaries.

The long-range actuarial deficit is now only a little more than one-fourth of its level as projected prior to the Balanced Budget Act of 1997—a major improvement. Even so, the long-range outlook remains unfavorable. The HI program still fails by a wide margin to meet our long-range test of close actuarial balance. To bring the HI program into actuarial balance, over the next 25 years under the intermediate assumptions, would require only minor changes, such as either

Table II.C3.—Assets of the HI Trust Fund, by Type, at the End of Fiscal Years 1998 and 1999[1]

	September 30, 1998	September 30, 1999
Investments in public-debt obligations sold only to the trust funds (special issues):		
Certificates of indebtedness:		
5.375-percent, 1999	$2,447,092,000.00	——
6.250-percent, 2000	——	$15,366,238,000.00
Bonds:		
5.875-percent, 2011-2012	8,754,457,000.00	8,754,457,000.00
6.000-percent, 2001-2014	——	25,623,727,000.00
6.250-percent, 2000	363,197,000.00	——
6.250-percent, 2001-2008	11,090,511,000.00	11,090,511,000.00
6.500-percent, 2000	263,990,000.00	——
6.500-percent, 2001-2010	11,413,156,000.00	11,413,156,000.00
6.875-percent, 2011	2,166,172,000.00	2,166,172,000.00
7.000-percent, 2011	3,368,466,000.00	3,368,466,000.00
7.250-percent, 2000	225,129,000.00	——
7.250-percent, 2001-2009	10,574,290,000.00	10,574,290,000.00
7.375-percent, 2000	867,961,000.00	798,589,000.00
7.375-percent, 2001-2007	13,392,693,000.00	13,392,693,000.00
8.125-percent, 1999	103,302,000.00	——
8.125-percent, 2000-2005	5,407,641,000.00	5,407,641,000.00
8.125-percent, 2006	7,213,666,000.00	7,316,968,000.00
8.375-percent, 2000-2001	3,740,738,000.00	3,740,738,000.00
8.625-percent, 2000-2002	4,567,902,000.00	4,567,902,000.00
8.750-percent, 2000-2005	21,574,394,000.00	21,574,394,000.00
9.250-percent, 1999	826,713,000.00	——
9.250-percent, 2000-2003	7,333,570,000.00	7,333,570,000.00
10.375-percent, 1999	427,022,000.00	——
10.375-percent, 2000	1,277,566,000.00	1,277,566,000.00
13.750-percent, 1999	850,544,000.00	——
Total investments	$118,250,172,000.00	$153,767,078,000.00
Undisbursed balance[2]	-1,136,697,073.78	-15,079,816,783.46
Total assets	$117,113,474,926.22	$138,687,261,216.54

[1]Certificates of indebtedness and bonds are carried at par value, which is the same as book value.
[2]Negative figures represent an extension of credit against securities to be redeemed within the following few days. See text for explanation of the unusually large September 30, 1999 extension of credit.

An undisbursed balance normally represents cash receipts that have not yet been invested and/or trust fund securities that have been redeemed to obtain the cash necessary to meet expenditures anticipated in the immediate future. Thus, such amounts are assets of the trust fund that are not currently invested in interest-bearing Treasury securities. Conversely, if redeemed assets temporarily fall short of immediate expenditures, the undisbursed balance can be negative, representing an extension of credit against securities to be redeemed within the following few days.

The magnitude of the negative undisbursed balance at the end of fiscal year 1999 substantially exceeded normal levels. This was a result of accounting errors involving the crediting and debiting of amounts to the HI trust fund during the last 6 months of the fiscal year. These errors led to an excessive level of invested assets and a

Table II.D1.—Operations of the HI Trust Fund during Fiscal Years 1970-2009

[In millions]

	Income								Disbursements			Trust fund	
Fiscal year[1]	Payroll taxes	Income from taxation of benefits	Railroad retirement account transfers	Reimbursement for uninsured persons	Premiums from voluntary enrollees	Payments for military wage credits	Interest and other income[2]	Total income	Benefits payments[3]	Administrative expenses[4]	Total disbursements	Net increase in fund	Fund at end of year
Historical Data:													
1970	$4,785	—	$64	$617	—	$11	$137	$5,614	$4,804	$149	$4,953	$661	$2,677
1975	11,291	—	132	481	$6	48	609	12,568	10,353	259	10,612	1,956	9,870
1980	23,244	—	244	697	17	141	1,072	25,415	23,790	497	24,288	1,127	14,490
1985	46,490	—	371	766	38	86	3,182	50,933	47,841	813	48,654	4,103[5]	21,277
1990	70,655	—	367	413	113	107	7,908	79,563	65,912	774	66,687	12,876	95,631
1991	74,655	—	352	605	367	-1,011[6]	8,969	83,938	68,705	934	69,638	14,299	109,930
1992	80,978	—	374	621	484	86	10,133	92,677	80,784	1,191	81,974	10,703	120,633
1993	83,147	—	400	367	622	81	12,484[7]	97,101	90,738	866	91,604	5,497	126,131
1994	92,028	1,639	413	506	852	80	10,676	106,195	101,535	1,235	102,770	3,425	129,555
1995	98,053	3,913	396	462	998	61	10,963	114,847	113,583	1,300	114,883	-36	129,520
1996	106,934	4,069	401	419	1,107	-2,293[8]	10,496	121,135	124,088	1,229	125,317	-4,182	125,338
1997	112,725	3,558	419	481	1,279	70	10,017	128,548	136,175	1,661	137,836	-9,287	116,050
1998	121,913	5,067	419	34	1,320	67	9,382	138,203	135,487[9]	1,653	137,140	1,063	117,113
1999	134,385	6,552	430	652	1,401	67	9,523	153,011	129,463[9]	1,979	131,441	21,570	138,683
Intermediate Estimates:													
2000	136,327	7,200	458	470	1,397	68	10,629	156,549	131,541[9]	2,310	133,851	22,698	161,381
2001	146,921	6,883	463	453	1,403	-1,264[10]	12,176	167,035	141,106[9]	2,464	143,570	23,465	184,845
2002	153,981	7,446	481	205	1,476	68	13,826	177,484	144,634[9]	2,603	147,237	30,246	215,091
2003	160,831	8,052	489	176	1,571	68	15,345	186,532	154,335[9]	2,748	157,083	29,449	244,540
2004	168,031	8,646	494	167	1,681	68	16,834	195,920	163,103	2,829	165,932	29,988	274,529
2005	177,923	9,211	510	174	1,804	69	18,460	208,151	176,833	2,911	179,744	28,407	302,935
2006	185,688	9,856	528	183	1,938	69	20,026	218,288	183,591	2,997	186,588	31,700	334,635
2007	195,121	10,593	548	195	2,078	70	21,619	230,223	199,209	3,091	202,300	27,923	362,558
2008	204,366	11,464	569	204	2,218	71	23,182	242,074	212,680	3,192	215,872	26,203	388,761
2009	214,167	12,534	592	212	2,357	71	24,752	254,685	226,774	3,298	230,072	24,613	413,374

Table II.D2.—Operations of the HI Trust Fund during Calendar Years 1970-2009

[In millions]

	Income								Disbursements			Trust fund	
Calendar year	Payroll taxes	Income from taxation of benefits	Railroad retirement account transfers	Reimburse-ment for uninsured persons	Premiums from voluntary enrollees	Payments for military wage credits	Interest and other income[1]	Total income	Benefits payments[2]	Adminis-trative expenses[3]	Total disburse-ments	Net increase in fund	Fund at end of year
Historical Data:													
1970	$4,881	—	$66	$863	—	$11	$158	$5,979	$5,124	$157	$5,281	$698	$3,202
1975	11,502	—	138	621	$7	48	664	12,980	11,315	266	11,581	1,399	10,517
1980	23,548	—	244	697	18	141	1,149	26,097	25,064	512	25,577	521	13,749
1985	47,576	—	371	766	41	-719[4]	3,362	51,397	47,580	834	48,414	4,808[5]	20,499
1990	72,013	—	367	413	122	-993[6]	8,451	80,372	66,239	758	66,997	13,375	98,993
1991	77,851	—	352	605	432	89	9,510	88,839	71,549	1,021	72,570	16,269	115,202
1992	81,745	—	374	621	522	86	10,487	93,836	83,895	1,121	85,015	8,821	124,022
1993	84,133	—	400	367	675	81	12,531[7]	98,187	93,487	904	94,391	3,796	127,818
1994	95,280	1,639	413	506	907	80	10,745	109,570	103,282	1,263	104,545	5,025	132,844
1995	98,421	3,913	396	462	954	61	10,820	115,027	116,368	1,236	117,604	-2,577	130,267
1996	110,585	4,069	401	419	1,199	-2,293[8]	10,222	124,603	128,632	1,297	129,929	-5,325	124,942
1997	114,670	3,558	419	481	1,319	70	9,637	130,154	137,762	1,690	139,452	-9,298	115,643
1998	124,317	5,067	419	34	1,316	67	9,327	140,547	133,990[9]	1,782	135,771	4,776	120,419
1999	132,306	6,552	430	652	1,447	67	10,139	151,593	128,766[9]	1,866	130,632	20,961	141,380
Intermediate Estimates:													
2000	141,141	7,200	458	470	1,380	-1,264[10]	11,404	160,789	134,075[9]	2,336	136,411	24,377	165,757
2001	148,750	6,883	463	453	1,411	68	12,983	171,011	141,222[9]	2,500	143,721	27,289	193,046
2002	155,748	7,446	481	205	1,497	68	14,582	180,028	148,682[9]	2,638	151,320	28,708	221,754
2003	162,906	8,052	489	176	1,595	68	16,084	189,370	156,710[9]	2,768	159,478	29,892	251,646
2004	170,576	8,646	494	167	1,709	68	17,648	199,307	165,857	2,849	168,706	30,601	282,248
2005	179,205	9,211	510	174	1,835	69	19,250	210,254	177,342	2,931	180,273	29,981	312,228
2006	187,868	9,856	528	183	1,972	69	20,825	221,302	189,780	3,019	192,799	28,503	340,732
2007	197,497	10,593	548	195	2,113	70	22,410	233,425	202,840	3,115	205,955	27,470	368,202
2008	207,076	11,464	569	204	2,253	71	23,973	245,610	216,431	3,217	219,648	25,962	394,164
2009	217,557	12,534	592	212	2,391	71	25,466	258,823	230,714	3,325	234,039	24,784	418,948

Since future economic, demographic, and health care usage and cost experience may differ considerably from the intermediate assumptions on which the cost estimates shown in tables II.D1 and II.D2 were based, projections have also been prepared on the basis of two different sets of assumptions, labeled "low cost" and "high cost." The three sets of assumptions were selected in order to illustrate the sensitivity of program costs to different economic and demographic trends, and to provide an indication of the uncertainty associated with financial projections for the HI program. The low cost and high cost alternatives provide for a fairly wide range of possible experience. While actual experience may be expected to fall within the range, no assurance can be made that this will be the case, particularly in light of the wide variations in experience that have occurred since the beginning of the program. The assumptions used in preparing projections under the low cost and high cost alternatives, as well as under the intermediate assumptions, are discussed more fully in section II.F of this report.

The estimated operations of the HI trust fund during calendar years 1999 to 2009, for total program income and disbursements under all three alternatives, are summarized in table II.D3.[1] The trust fund ratio, defined as the ratio of assets at the beginning of the year to disbursements during the year, was 92 percent for 1999. Under the intermediate assumptions, the trust fund ratio is projected to increase until 2008 and then remain level for a few years. Thereafter, the ratio would decline, with the fund becoming exhausted in 2025 under the intermediate assumptions, beyond the 10-year short-range projection period. Under the low cost alternative, trust fund assets would increase steadily throughout the 75-year projection period, while under the high cost alternative exhaustion would occur in 2012, shortly beyond the 10-year period. Without corrective legislation, the assets of the HI trust fund would be exhausted within the next 12 to 25 years under the high cost and intermediate assumptions. The fact that exhaustion would occur under a fairly broad range of future economic conditions, and is expected to occur in the not-distant future, indicates the importance of addressing the HI trust fund's financial imbalance.

[1]These projections do not reflect any reduction in disbursements due to proposed changes in legislation or regulation which were included in the President's Fiscal Year 2001 Budget but which have not been enacted or implemented.

Table II.D3.—Estimated Operations of the HI Trust Fund during Calendar Years 1999-2009, Under Alternative Sets of Assumptions

[Dollar amounts in billions]

Calendar year	Total income	Total disbursements	Net increase in fund	Fund at end of year	Ratio of assets to disbursements[1] (percent)
Intermediate:					
1999[2]	$151.6	$130.6	$21.0	$141.4	92
2000	160.8	136.4	24.4	165.8	104
2001	171.0	143.7	27.3	193.0	115
2002	180.0	151.3	28.7	221.8	128
2003	189.4	159.5	29.9	251.6	139
2004	199.3	168.7	30.6	282.2	149
2005	210.3	180.3	30.0	312.2	157
2006	221.3	192.8	28.5	340.7	162
2007	233.4	206.0	27.5	368.2	165
2008	245.6	219.6	26.0	394.2	168
2009	258.8	234.0	24.8	418.9	168
Low Cost:					
1999[2]	$151.6	$130.6	$21.0	$141.4	92
2000	160.9	134.9	25.9	167.3	105
2001	171.7	140.1	31.6	198.9	119
2002	180.7	144.2	36.5	235.4	138
2003	190.3	148.7	41.5	276.9	158
2004	200.5	154.2	46.3	323.3	180
2005	211.9	161.3	50.5	373.8	200
2006	223.5	169.0	54.5	428.3	221
2007	236.5	176.9	59.7	488.0	242
2008	249.9	184.7	65.2	553.2	264
2009	264.5	192.5	72.0	625.1	287
High Cost:					
1999[2]	$151.6	$130.6	$21.0	$141.4	92
2000	159.5	138.5	20.9	162.3	102
2001	164.5	146.1	18.4	180.7	111
2002	175.9	158.3	17.5	198.2	114
2003	189.1	172.9	16.2	214.4	115
2004	193.4	183.9	9.5	223.9	117
2005	205.2	201.3	4.0	227.9	111
2006	218.5	223.1	-4.6	223.3	102
2007	230.3	245.4	-15.0	208.2	91
2008	241.2	268.3	-27.2	181.1	78
2009	252.1	292.8	-40.7	140.4	62

[1]Ratio of assets in the fund at the beginning of the year to disbursements during the year.
[2]Figures for 1999 represent actual experience.

Note: Totals do not necessarily equal the sums of rounded components.

The Board of Trustees has established an explicit test of short-range financial adequacy. The requirements of this test are as follows: If the HI trust fund ratio is at least 100 percent at the beginning of the projection period, then it must be projected to remain at or above 100 percent throughout the 10-year projection period; alternatively, if the fund ratio is initially less than 100 percent, it must be projected to reach a level of at least 100 percent within 5 years (and the trust fund not be depleted at any time during this period) and then remain at or above 100 percent throughout the remainder of the 10-year

Table II.D4.—Ratio of Assets at the Beginning of the Year to Disbursements during the Year for the HI Trust Fund

Calendar year	Ratio
1983	20
1984	29
1985	32
1986	41
1987	79
1988	101
1989	115
1990	128
1991	136
1992	136
1993	131
1994	122
1995	113
1996	100
1997	90
1998	85
1999	92

Figure II.D1.—HI Trust Fund Balance at Beginning of Year as a Percentage of Annual Expenditures

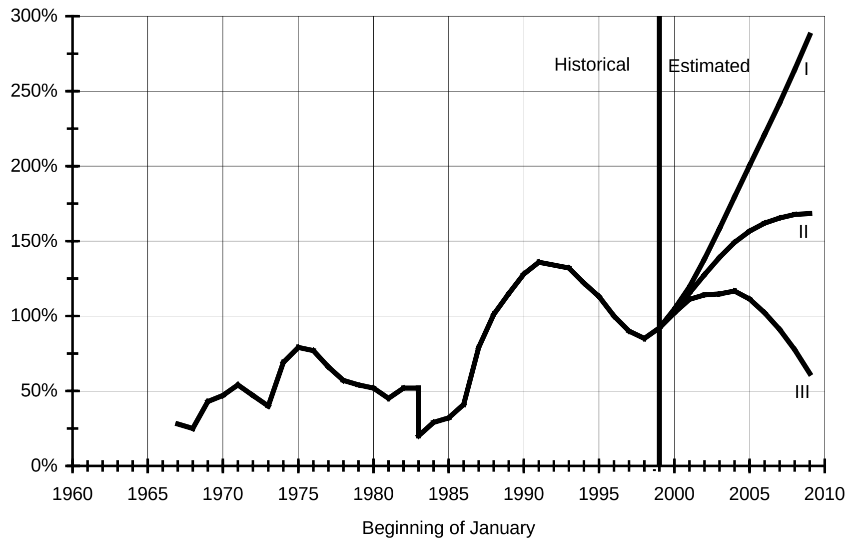
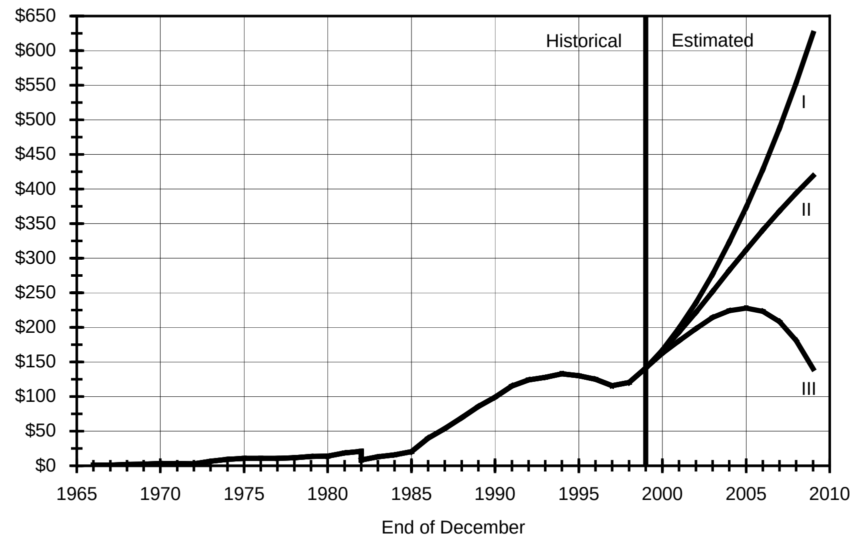


Figure II.D2.—HI Trust Fund Balance at End-of-Year
[In billions]



The Trustees' test of short-range financial adequacy is stringent. It is designed to provide an early warning that a trust fund may face financial difficulties in the coming years. As indicated by the projections above, under the intermediate assumptions the HI trust fund would experience a positive cash flow throughout the short-range period. The magnitude of this surplus, however, is relatively small. Under somewhat less favorable conditions, the cash flow could turn negative much earlier and thereby accelerate asset exhaustion. Thus, while the projections shown in this year's report represent a substantial improvement over last year's, the margin for safety remains thin.

As suggested by the historical asset levels shown in table II.D4 and figures II.D1 and II.D2, the Trustees' short-range test for HI has seldom been met.[2] For many years, the HI trust fund has been projected to become depleted within the next decade or so, as a result of increases in health care costs and utilization that generally exceed increases in the HI payroll taxes that support the program. Over the years, asset exhaustion has been postponed by enactment of legislation to increase trust fund revenue and/or reduce the rate of growth in program expenditures. As a result of the periodic corrective

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[2]The test was introduced by the Board of Trustees in 1991.